Address to the Board of Governors by Barber B. Conable

President
The World Bank
and
International Finance
Corporation

Washington, D.C.
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Welcome to these Annual Meetings. It is an honor to share the platform with Michel Camdessus. In the short time we have worked together, I have learned to respect his judgment, candor, and commitment to the great tasks our institutions jointly face. The International Monetary Fund (IMF) and the World Bank have a long history of collaboration on which to build. I am confident our productive relationship will intensify in the years ahead.

My purpose today is to outline the Bank's strategy for steady advance toward restored global economic growth, for steady progress in the fight against poverty. I offer neither instant nor easy remedies for today's grave problems. There are no such shortcuts. These twin objectives demand concerted, patient, and imaginative international action that will strengthen and build upon the unique relationship of cooperation and trust between the Bank and our borrowers.

Drawing on the lessons and capitalizing on the successes of the past, a renewed World Bank is ready with an agenda for the future, a realistic vision of the pressing challenges to development and of the rewards that increased and determined effort can win.

The Bank's reorganization is now completed. This change in structure was long overdue, but no undertaking of this magnitude could be accomplished without some pain. And so on this occasion I want to pay special tribute to Bank staff for the extraordinary dedication and professionalism they have shown during the difficulties of recent months. The staff has long been an outstanding collection of well-motivated and highly skilled individuals. Looking ahead, I am confident that we have greatly improved our institutional ability to provide sensitive, effective, and timely support to each of our borrowers and to offer intellectual leadership in the understanding of development.

The Present Situation

As we discuss the Bank's role in the future, let us look first at our present situation. I am fundamentally an optimist, but I recognize that we meet in threatening times. I need not catalog all the ups and downs of the world economy for this group; a few illustrations will suffice.

Prospects for continued stable growth of the leading industrial nations and hence of the world economy are uncertain. Despite some progress, for many countries the problem of debt has not abated. Several major debtors, in fact, have faltered in their efforts to resume noninflationary growth and consequently to bear the burden of their indebtedness.

Although there have been encouraging efforts at adjustment in many countries, much of Sub-Saharan Africa continues to suffer from acute economic crisis, as well as from major long-term development problems. Severe environmental problems exacerbate the difficulties of the region. Even in Asia, where most countries have continued to manage their economies to minimize the impact of the world's economic troubles, poverty remains widespread. Some countries are suffering from climatic disasters, others from a difficult period of political and economic transition.

As the world's principal development agency, the Bank must confront these harsh, diverse realities. We must ask where we can do more. We need to help member governments design and implement better programs that will contribute more strongly to the resumption of growth and development. And we must look beyond the immediate crises to our long-term, long-standing development mission.

To wait for better times is to delay their coming. To default on the obligations of leadership is to raise the cost—in social upheaval as well as economic loss—of remedial action. Thus, the IMF and the World Bank, our members, and the leaders of the international financial community must act with resolve and a clear sense of direction.

Commitment for the Future

This is my commitment to you today—that the World Bank is ready to play a reinvigorated role in the fundamental tasks of development: to promote economic growth and to combat poverty. To do so, we will give strong and reliable support to the adjustment efforts of our member countries. We will work to preserve and extend the open global financial and trading system

that is fundamental to growth. And we will vigorously promote the market-oriented policies and reforms that will best mobilize vital private capital flows and harness the creative energies of millions of people for efficient growth.

Restoring and strengthening growth are essential for achieving our greatest goal—to reduce the poverty, misery, and destitution that blight our world. But growth, by itself, is not enough.

The Bank will increase lending aimed directly at improving the access of the poor to better food, shelter, health care, and schooling. We will strive to protect the poor during periods of adjustment. We will support policy and institutional changes to ensure that public programs more efficiently direct their benefits to poor people. In these vital social investments we will work more closely with the private sector and nongovernmental organizations in order to multiply their effectiveness at the grassroots.

Poverty is a major cause of environmental degradation, and so Bank-supported programs that help reduce poverty by improving incomes, introducing new skills, and fostering family planning are also effective means of environmental protection.

We will devote more of our staff resources and financial strength to helping borrowers safeguard and improve the environment—by supporting better environmental policies and standards and by specific environmental investments. We will emphasize the importance of protecting renewable resources to reduce their pollution and waste. Only by defending nature can we ensure the survival of man.

For the heavily indebted middle-income countries our objectives are a return to steady, noninflationary growth, and for many of them a return to full creditworthiness in the international capital markets within the next five to seven years.

In Sub-Saharan Africa our goals are to help meet the current crisis by organizing major programs in the severely debt-distressed countries, to see the productive capacity of African economies rebuilt, and to help ensure that the welfare and food security of Africa's millions of poor people are protected in the process of adjustment and recovery.

In Asia we will help combat poverty directly in countries with the world's largest numbers of very poor people and assist the efficient integration of this rapidly growing region into the world economy.

Shared Responsibilities—The Need for Collective Effort

I intend to spell out what the Bank will do—with your support and guidance—to help ensure that these objectives are met. But I cannot stress enough the simple fact that all members of the international community—industrialized and developing members alike—must make a major effort if growth and development are to be ensured.

Developing countries need to sustain demanding reforms in order to make their development strategies effective. Despite the many difficulties imposed by the global environment and by domestic social and political conditions, there is no alternative to adjustment and the correction of past policy mistakes. Adjustment efforts that are half-hearted, too slowly implemented, or allowed to unravel will postpone—perhaps indefinitely—the resumption of growth and the improvement of living standards.

But structural adjustment is not just a prescription for developing countries. The major industrial countries must address their own trade, monetary, and fiscal problems, so that they can resume a more adequate rate of growth. Their present slow growth severely constrains the capacity of developing countries to recover and grow, which in turn harms all nations in this interdependent global economy. Continued large trade and fiscal imbalances, and the exchange rate instability and protectionist pressures to which they give rise, hold the growth of the world economy well below desirable levels.

Commercial lenders, too, need to match the realism they have shown in provisioning against loan losses with realism about their longer-term stake in world trade, investment, and economic growth. Major commercial lenders and investors, as well as the now enormous private capital markets, will have an essential role in any resolution of the debt crisis. No debt strategy can succeed without their active participation, and success in overcoming the debt crisis is central to their own future strength and growth.

Increases are needed in all resource flows to support developing countries' adjustment and growth. There is a serious gap between what is needed for development and what most donors and creditors are doing.

The Bank in particular needs a stronger resource base if we are to play an enhanced role. Only our shareholders can make this a reality—by completing the eighth replenishment of the International Development Agency (IDA-8) for the low-income countries, by making the Multilateral Investment Guarantee Agency (MIGA) a fully operational source of stimulation to private sector investment, and above all by providing a substantial general capital increase for the World Bank.

I believe that Governors gathered here will agree that the alternative to this collective effort—stultified growth, intractable debt burdens, and growing poverty for millions of additional people—is simply unacceptable. It is unacceptable from a moral and ethical standpoint. But it is also unacceptable from the standpoint of simple self-interest. It is surely in all our interests for the developing economies to prosper and grow.

Let me now turn more specifically to the role of the World Bank in three sets of countries—the heavily indebted middle-income group, Sub-Saharan Africa, and Asia.

The Bank's Role in Heavily Indebted Middle-Income Countries

The heavily indebted middle-income countries face a basic problem: how to resume growth and development while dealing with the burden of debt. They need to adopt and implement far-reaching adjustment programs; they need to expand their income from trade; they need adequate supplies of net new capital from both public and private sources; and they require adjustment by the industrial countries to facilitate their return to creditworthiness.

The Bank has a central responsibility in assisting heavily indebted countries to grow out of debt and recession. We have expanded our lending to meet that responsibility. We plan to maintain our commitments, and we will play an active part in the further

development of strategies to resolve the debt problem—both at the international level and in our work with individual member countries.

A number of heavily indebted countries have been making strenuous efforts to resume growth by means of far-reaching adjustment programs. These often provide an improved policy framework for vigorous private sector development, a more liberal environment for export growth, and public sector management that combines greater fiscal discipline with a much sharper focus on those areas where public resources can and must play a central role—for example, basic infrastructure and the provision of educational and other social services.

Experience with adjustment programs has been diverse. Much progress has been made. Indeed, in a number of countries the resumption of sustained growth seems to be under way. In many other countries, however, adjustment efforts have been inadequate. In part the reason is that these programs have come under severe internal political and social pressures because the process has been slower than anticipated. In part it is because of domestic policy mistakes—for example, stimulating consumption to unsustainable levels, with resultant inflation.

The problems of these countries have also been greatly complicated by the global environment. Deteriorating terms of trade have reduced the value of primary commodity exports. Sluggish world markets and rising protectionism have slowed the growth of manufactured exports, even though a few countries have achieved some notable successes. Interest rates have remained high by historical standards and have again begun to turn upward. Net new financial resources from abroad have often been inadequate, and what funds have been available have frequently taken too long to arrange.

As a consequence, the burden of debt has risen, not declined, since the onset of the debt crisis five years ago. This has happened despite large debt service payments (amounting, in the case of Latin American debtor countries, to $130 billion since 1982, or 4 percent of their collective gross domestic product). There have been major setbacks to development in many of these

countries in the 1980s. Although they almost doubled their per capita incomes between 1965 and 1980, these countries have suffered a fall in income of about 20 percent in this decade. The consequence has been an alarming growth in absolute poverty, worsening unemployment, and deteriorating social welfare.

There is no quick solution for these linked debt and development problems, but we must learn from experience and strengthen our programs. There have been a number of stages in the evolution of the crisis since 1982, and I believe we are approaching yet another turning point in the implementation of the debt strategy. The adjustment process and the resumption of sustained growth are proving more difficult than we had hoped. Greater political participation in many heavily indebted countries makes both growth and the choice of appropriate development strategies all the more important.

At the same time, it is becoming increasingly difficult for heavily indebted countries to obtain timely new financing. After the onset of the debt crisis, commercial banks rescheduled substantial amounts of debt, made net new commitments of funds, and provided major financing to countries that had not rescheduled. But in recent years the banks have drawn back, and the prolonged nature of the problem is making it more difficult to arrange concerted lending packages with hundreds of partner banks. The recent provisioning decisions of large banks in the United States and elsewhere may limit still further the availability of new lending. Financing from some official sources has also dropped markedly from levels earlier in the decade.

In a period of dramatically increased global reach and financial sophistication of capital markets, the total flow of financial resources to the heavily indebted middle-income countries has been dwindling, and the need to tap market sources other than the commercial banks is growing more urgent. A determined partnership is needed among debtors, creditors, and investors to devise fresh ways to harness market resources to development needs.

Resolution of debt problems is crucial if our common development objectives are to be achieved. It is also crucial to the

healthy growth of the industrial countries. Economic decline in the highly indebted countries has caused a drop of over $100 billion in imports between 1980 and 1985—and thus has meant forgone exports, jobs, and profits for the industrial world.

It is urgent that noninflationary growth be resumed in the heavily indebted middle-income countries. An annual growth rate of at least 2 percent per capita should be the objective we all agree to support as a key element of every adjustment program. Our common goal should be to restore the major debtor countries to full creditworthiness within five to seven years.

The World Bank is already an active partner of many heavily indebted countries, and we expect to play an even more vigorous role in the future. The restoration of sustained growth and creditworthiness will be major objectives of our programs for these countries. More of our financial resources and best staff skills will be devoted to helping design and implement adjustment programs. Where countries are prepared to sustain adequate reforms, the Bank will support their programs with substantial new lending.

And in partnership with the Fund, we will play an active role in helping to arrange for debt restructuring and financing, including the development of a broader range of instruments to facilitate the reduction of debt and to supplement direct new lending.

I believe we should look closely at innovative market-based approaches to the resolution of debt problems. Such techniques will only succeed if they are accepted voluntarily and at realistic prices. We will encourage the wider and more creative use of debt conversion to turn debt into equity or working capital—both through direct investment and through debt-equity conversion funds such as those the International Finance Corporation (IFC) is developing with a number of member countries. Debt conversion has proved effective in reducing debt and debt payments, and there is more demand for such schemes than present programs in the indebted countries are able to meet. We will work with governments to expand such programs in ways consistent with prudent fiscal and monetary policies and with the encouragement of sound investment. Other approaches that re-

duce outstanding debt and annual interest payments—such as exit bonds—also warrant further development.

Increased use of more market-based instruments to help finance development in the medium and longer term requires a strong and sophisticated domestic financial structure. The Bank and the IFC will help countries to strengthen their financial sectors, particularly their capital markets. The broader the domestic financial sector, the greater the flow of private capital can be, whether through debt-equity conversions or direct investment—without confronting the sometimes politically sensitive issue of majority foreign ownership.

One of the major problems in recent years has been the time lapse between agreement on debt restructuring and the actual provision of new funds. We are all familiar with the complexities that have led to these protracted delays. Governments and ministers commit themselves to major policy changes that are often politically difficult. Their success depends on a supply response—increased production and employment—which, in turn, depends on the provision of new financing. But if such financing is delayed by six to nine months, which has not been unusual, public support for reform wanes and the pressure for alternative approaches mounts.

We will work with the commercial banks and export credit agencies to help streamline this process considerably, so that external financing is available expeditiously after agreement has been reached on a satisfactory growth-oriented adjustment program.

Export credit agencies have an important role to play. The Export-Import Bank of Japan has been authorized to provide flexible untied, quick-disbursing loans to the highly indebted countries, in association with World Bank operations. This has proved immensely helpful in Argentina, Mexico, and other countries. We welcome this initiative and urge other countries of the Organisation for Economic Co-operation and Development to consider similar approaches.

We also intend to initiate a program of financial technical assistance, in which the highly indebted countries will have priority.

The program will draw on the financial expertise of the Bank to assist countries in developing techniques to mitigate interest and currency risks in the management of their debts and foreign assets. The solutions that we help to develop will be designed to benefit both debtors and creditors and will be consistent with the prudent management of the Bank's own financing.

For the past several years the Bank has been the leading source of net funds for the heavily indebted middle-income countries. Last year, in fact, the Bank provided the equivalent of four-fifths of total net lending to the fifteen countries that are central to the debt strategy. The Bank was prepared to accept this increased exposure because we believed it was both prudent and necessary to help ensure a resumption of growth and development in the affected countries. But we cannot stand alone.

As I have indicated, we intend to maintain our greatly expanded program of lending in support of these countries' growth-oriented programs. While we will not give comfort to risks that properly belong in the private sector, we will energetically develop our relationships with commercial banks and seek through our participation in financing packages to build confidence in these countries' prospects. We will not assume the debts of others, but we are prepared to maintain substantial disbursements and adapt our financing instruments as long as we see credible adjustment efforts and responsive actions by the governments of the debtor countries, as well as appropriate participation by other official and private creditors.

I believe that we should commit ourselves to restoring the stronger debtor countries to spontaneous access to the world's credit markets in five to seven years. This will demand sustained effort by both creditors and debtors. For such countries—Argentina, Brazil, Mexico, and Venezuela, for instance—the right approach remains one of strong adjustment programs together with imaginative arrangements for new borrowing from both private and public sources, as well as other types of financing.

For some less resilient middle-income countries pursuing adjustment, however, there may be legitimate concerns about financing solutions that rely largely on increased indebtedness on commer-

cial terms. Their return to normal credit status is likely to be more protracted and their growth and debt-servicing capacity more limited, while commercial financing on appropriate terms is increasingly difficult to arrange. These differences—which underline the wisdom of the case-by-case approach—may require extension of the present range of options within the menu to provide the debtor with adequate foreign resources. These may include greater reliance on official sources of finance and understandings between commercial banks and debtor governments on ways to avoid the growth of debt on commercial terms and the unmanageable buildup of arrears. These areas need further exploration in the search for individually tailored arrangements to restore growth and creditworthiness as rapidly as possible.

The success of any debt work-out program in which the World Bank might participate will be heavily dependent on actions by the industrial countries. These countries, particularly those in surplus, bear a great responsibility to ensure more rapid growth in the world economy. If indebted developing countries are to meet their external obligations by expanding export revenues, industrial countries will need to absorb greater amounts of their exports. This process will entail painful adjustments by producers in industrial countries and staunch resistance to easy but self-defeating protectionism. Actual and threatened protectionism in the industrial countries is counterproductive to any viable debt work-out strategy.

In these circumstances the success of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) is essential to the welfare of the global economy. The GATT nations should act urgently to ensure a standstill and rollback of existing protectionist measures.

In the proper global economic setting, many of the heavily indebted middle-income countries should be able to see their creditworthiness restored within five to seven years. For others, the process will take longer and may require enhancement of the existing strategies. In all cases, however, debtors and their creditors must persist with the search for negotiated, mutually accommodative solutions. And the World Bank must shoulder its share

of responsibility. We cannot shirk this responsibility. We do not wish to do so. But this in turn has implications for our own resource base—a point that I shall take up in greater detail later.

The African Crisis

Let me turn now to another troubled group of countries in which the Bank has been playing an extremely active role. The severity of the crisis in Sub-Saharan Africa is well known to this audience—and the response of governments and ordinary people in the industrial countries has greatly strengthened African initiatives. That generous response must be translated into sustained, long-term assistance to tackle Africa's deep-seated problems—a fragile ecology, weak institutions, underdeveloped human potential, and minimal infrastructure. These problems have been exacerbated, in an extremely difficult external climate for primary producers, by policy errors and wasted resources in too many African countries. The common results have been increasing debt, foreign exchange scarcity, and virtual fiscal collapse.

Long-term recovery in Africa must thus start from a determined effort to contain and manage the present crisis and to institute sustained adjustment programs to liberate the entrepreneurial and productive potential of Africa's economies and people. Africans, as Nigeria's former head of state, Olusegun Obasanjo, has so eloquently written, "must seriously organize and mobilize their societies for a more sustained development process, predicated on the conviction that they cannot have development without sacrifice. . . . Development means hard work, sweat, forbearance and discipline."

Structural adjustment is therefore absolutely fundamental to the Bank's assistance strategy for Africa and is not in any sense separate from our development role in the continent. Indeed, we will continue to concentrate IDA resources on the growing number of countries that are making determined and realistic adjustment efforts. They will be backed up by imaginative new programs being initiated by the IFC, such as the African Management Services Company which will involve forty to fifty international companies as well as governments and international organizations in assisting the African private sector.

Africa's courageous reform efforts are being hampered in many cases, however, by a shortage of financial resources exacerbated by a severe burden of debt. Urgent, determined, and coordinated action is needed, as the Venice Economic Summit recognized, to relieve the debt-distressed low-income countries and to mobilize the additional resources essential to economic recovery.

As a result, the Bank has proposed an ambitious but realistic international program of assistance to a group of low-income, especially debt-distressed countries undertaking significant adjustment programs. (Although our proposals have focused on Africa, low-income countries elsewhere face identical problems. In Latin America, for instance, Bolivia's future development depends on official actions and financing.) For the group of about fifteen highly indebted low-income African countries undertaking adjustment programs, the objective is to mobilize at least $1.5 billion in additional external resources each year during 1988–90. This would permit a modest growth of 2 percent per capita annually in gross domestic product, some growth in consumption, and the maintenance of debt service ratios at manageable levels of about 25 percent in these countries.

The key components of this program are:

- concessional debt relief in the Paris Club, including lowered interest rates and extended grace periods and maturities as well as continued conversion of loans to grants
- increased flows from IDA, together with expanded cofinancing from other donors and speedier disbursement in support of adjustment operations
- support for the enlargement of the Structural Adjustment Facility (SAF) as proposed by the Managing Director of the Fund.

The Bank is giving high priority to this multidonor-multicreditor effort. We have been encouraged by the response of the donor community. We are now undertaking special missions to develop specific programs with donor governments, especially for expanded cofinancing of adjustment.

But there is not yet sufficient tangible progress—especially on debt relief—to make the program a reality. I urge the donor

countries to support efforts to mobilize the resources vital to African recovery by agreeing now to these special initiatives, by completing parliamentary and other actions required to make available expeditiously the resources committed to IDA-8, by supporting an enlarged SAF, and by directing their own national assistance to these deserving programs.

Adjustment programs provide the essential basis for economic recovery. But the process of recovery will inevitably be painful and prolonged. In the meantime, Africa's 450 million people, the vast majority of them very poor, will continue to be vulnerable to austerity and to the natural calamities that have blighted the continent in recent years. They must be protected while growth gradually resumes.

In particular, the availability of adequate supplies of food in all countries must be ensured, while strong efforts are made to increase food production. Sub-Saharan Africa needs to grow 4 percent more food every year to match population growth and to reduce uneconomic food imports. Food security for all Africans will therefore be a central feature of the Bank's long-term assistance strategy in Africa, and we will work in close collaboration with other donors and with African governments to achieve it.

To do so, some important objectives must be met:

- Individual African countries need to concentrate their efforts on important food crops of which they are or can become efficient producers, rather than adopt expensive and wasteful policies of self-sufficiency in all foods.
- Specific policies must be designed to reduce fluctuations in the food supply and to increase production and purchasing power within food-deficit regions and population groups.
- Food distribution systems need to be improved both within and between countries by encouraging smoothly functioning markets and appropriate supporting institutions.
- Environmental degradation and the loss of valuable food-producing land must be reversed.

To help meet these objectives, we are taking a number of initia-

tives. The Bank will expand adjustment lending in the agricultural sector to help African governments establish the policies, incentives, and institutional framework that will encourage farmers to produce and sell more. Adjustment lending will also help governments remove inappropriate interventions in the marketing and distribution of food, which have often inhibited food production and consumption.

At the same time, we will pay careful attention to the need for safeguards for groups whose food security may be threatened during the process of adjustment—for example, urban poor people whose subsidies are being phased out or state employees whose jobs are being abolished as civil services and public enterprises retrench and reform.

The production of African agriculture can be sharply increased. National programs are being developed to bring research results, technology, and agricultural services to small farmers. These programs, which will use management and organizational techniques that were pioneered by the Bank and that have already proved successful in some African countries, will soon be under way in fourteen countries. A key objective of this initiative will be to reach women farmers, who produce the bulk of the continent's food but whose role in food production has too long been ignored.

Norman Borlaug, the father of the Green Revolution, has described agriculture as "the mother of science . . . the science which makes life possible." Although we can do much with present technology to expand food production, Africa's farmers must also benefit from the great strides made in recent years in biology and genetics. To help adapt this knowledge to the continent's different and often very difficult terrain, we are supporting the Special Program for African Agricultural Research, which is mobilizing international efforts to develop effective technical solutions for African agriculture.

Food security will also require a major environmental rescue and development effort. Africa's rapid shift from conditions of land abundance and labor scarcity to conditions of closing land frontiers and increasing population pressures is turning three-quarters of a

billion hectares of land to desert, while almost 4 million hectares of forest and woodland are disappearing annually. Poverty breeds environmental neglect and abuse, and resource degradation deepens the poverty problem. We must break this vicious circle.

The Bank will promote policy changes to reverse the incentives for environmental degradation and to bring about a synergy between food production and the renewal of Africa's natural resources. An important part of this effort will be our planned tripling of lending for forestry, much of it concentrated in those countries of Sub-Saharan Africa that have policies conducive to environmental preservation. Far from competing with food production, forests preserve the rainfall and soils essential to it.

Finally, we will work closely with governments and international bodies, such as the World Food Program, to increase the capacity of African countries to deal with food scarcity and emergencies and to design food security policies for specially affected population groups.

Food security is central to our efforts to alleviate African poverty. Closely linked is the need to strengthen Africa's human resources. Investment in people is a fundamental requirement, if these economies are to achieve sustained growth and to emerge from the present crisis.

Africa has made important progress in providing education for its people, but the current crisis has made that achievement vulnerable. I propose to expand the Bank's sector adjustment lending to promote reforms that will mobilize more private and community financing of education, provide better materials and equipment, and encourage cost containment and the more efficient use of schoolteachers.

We will not neglect higher education, which is vital to the development of the continent's managerial and technical capacity. Through our policy advice and adjustment lending, we will encourage governments to introduce policy, financial, and institutional reforms to improve access to higher education and to share its costs and benefits more equitably than in the past.

We will complement these efforts by continued support for safe

motherhood and other programs aimed particularly at female and child welfare. Lending to Sub-Saharan Africa for population, health, and nutrition programs will more than double by 1990. We will support the World Health Organization's worldwide effort to combat acquired immune deficiency syndrome (AIDS), a disease that has potentially grave consequences for some countries in Africa. In all these efforts, we will be looking for new and more creative ways to work closely with voluntary organizations, community and church groups, and the private sector.

Too much of Africa's recent history has been written in spurts of beneficence, too little in steady attention to deep-rooted problems that preclude simple, speedy remedy. The challenge Africans face is to salvage the gains of the past in order to bolster the foundation for future recovery. The Bank will do everything possible to help Africa meet this challenge.

The Bank's Role in Asia

In its work in Africa and Latin America, the Bank is responding to deep economic crisis and dramatically interrupted growth. In Asia, by contrast, we have had enduring partnerships with countries that together constitute the most diverse, dynamic, and fastest-growing region on earth. With one or two exceptions, this region, because of sound economic management, has been affected relatively little by recession and crisis.

As these countries continue their impressive development, our own role as development partner must change. We are placing particular emphasis, through our lending and policy advice, on facilitating the process of market-oriented reform in major Asian countries—of which China is a complex and striking example. We are assisting our East Asian borrowers to adjust the trade, financial, and industrial sectors of their increasingly sophisticated economies to changes in the global economy. And we plan to examine with them their strategic options for the next phase of growth, especially those offered by increased trade, investment, and economic integration within the Asian region itself.

The private sector in Asia is vigorous but could play a larger role in promoting economic growth and technological advance, if it is

given the freedom to do so. Asia's rapidly expanding capital markets have the potential to promote more rapid growth in the private sector and to better serve the needs of their countries in accumulating and allocating savings. Their development role will be more effective as they become linked to the major capital markets of the world. The portfolio funds that the IFC has been promoting foster these links and encourage us to look forward to a time when a large number of corporations in developing countries are able to raise capital on international markets. Asia is already showing the way in this process.

The dynamism of these economies requires sustained investment for large-scale projects in infrastructure, energy, and communications. In several of these countries, the external economic environment has contributed to sharply declining investment in new physical and human infrastructure and has postponed maintenance and rehabilitation of existing capacity. The Bank as a long-term development institution must continue to support these countries' needs for investment and institution building, both of which are crucial for sustaining their progress in the longer term. Investment in infrastructure and in other sectors therefore will remain the mainstay of Bank lending in this region. Bank projects and lending instruments will provide as much room as possible for associating private and official cofinancing with the Bank's funds.

Alongside these major initiatives to promote growth, I wish to highlight another major direction for the Bank. It is a tragedy that, despite the great progress mankind has made in the past few decades, millions of people continue to live in abject poverty. Rapid economic growth or the advances of modern technology seem of little consequence, if nearly a billion people do not have enough food, clean water, or shelter.

Let me turn therefore to the Bank's role in combating Asian poverty. Although we shall pursue the eradication of poverty globally, the effort in Asia, which contains more than 500 million of the world's absolute poor, has particular relevance.

In the large, poor countries of Asia we wish to support government strategies to eliminate the worst aspects of absolute poverty

by the year 2000. This is a bold objective, but not an impossible one. In the face of the most pessimistic predictions some twenty years ago, low-income Asia tripled its gross domestic product and almost doubled its per capita income, which now stands close to $300. In the first half of this decade these countries maintained a striking average annual growth rate of almost 8 percent, while much of the rest of the world suffered from deep recession. We believe there is every prospect that these countries can double their per capita income again by the turn of the century, placing them in the ranks of middle-income countries.

This large region, which accommodates two-thirds of the world's population, therefore stands at the threshold of transition from poverty to relative affluence. But in spite of these great achievements and bright prospects, the proportion of people living below the poverty line—that is, without the income needed to buy an adequate amount of food—has not changed very much. Despite the continued efforts of governments, serious income disparities continue to exist within countries, and extreme poverty and deprivation persist.

Of the large countries in the region, China has made the most rapid progress in alleviating poverty. It has provided an increasing range of social services consistent with efforts to more than double its per capita income by the year 2000. We will support the Chinese government's program to eliminate remaining pockets of absolute poverty. India, too, has consistently kept the alleviation of poverty at the top of its development agenda, but poverty remains pervasive despite progress in reducing its incidence over the years. We will support the commitment of the Indian government to achieve its goal of eliminating absolute poverty by the year 2000.

There is little reason to expect that future growth alone will attain the progress against poverty that it has failed to secure in the past. Nor can World Bank resources alone address these huge problems. But we can and will target an increased proportion of our IDA lending to help tackle the poverty that has remained largely impervious to the benefits of growth: among the landless and assetless rural poor, among vulnerable social groups such as

rural women and children, and in distant or backward areas of the large countries.

Extreme poverty lies overwhelmingly in the countryside, and most of its solution must be found in the villages of Asia, although we will not ignore the continent's hard-pressed megacities. Our strategy will concentrate on the delivery of basic services to ensure adequate food, shelter, and health care and on the conservation of the often-fragile environment of rural areas.

We will support education, nutrition, and family planning programs and increased attention to rural employment and income generation for landless labor. In all our programs to alleviate poverty, we will apply the lessons we have learned to design more effective, targeted methods to combat the worst aspects of poverty—malnutrition, disease, and lack of employment opportunity. Our lending programs will emphasize eliminating poverty in ways conducive to economic efficiency and growth.

Many of the technologies to combat this entrenched poverty are cheap, simple, and effective: village handpumps which draw clean and safe water, oral rehydration tablets costing a few cents each which save the lives of thousands of children, contraceptives which can provide poor people with the opportunities for family planning from which much of Asia already benefits.

But the institutions to deliver these services to poor people and to inaccessible areas are frequently absent or—in the case of official programs—are often cumbersome and ineffective. We will therefore work with governments to find new ways to involve voluntary, nongovernmental organizations (NGOs) and the private sector in our poverty eradication efforts.

In many Asian countries, NGOs have devised imaginative solutions to the problems of organizing poor people and delivering services to them at low cost. By working more closely with these groups, we can strengthen development programs. But we must respect their independence and their sometimes unconventional approaches. The international community and governments should also collaborate to develop and deliver the research and technical assistance—for dryland farming, animal husbandry, and cultivation of

root crops and pulses—and the simple, replicable technologies that the poor can use. The Bank has acquired valuable experience in these areas and is supporting further research. We will find fresh ways to put the results to work for the poor.

We will also work with governments to remove barriers to the development of fair markets and better incentives. Only governments have the ability to remove some of these administrative restrictions—restrictions that permit both bureaucratic and private exploitation of poor people—and to provide the incentive framework within which poor producers and an efficient and competitive private sector can flourish.

In the coming months we will be developing these ideas further, in concert with our Asian partners and other experienced donors and organizations. Together we can ensure that continued rapid development is more widely and equitably shared, so that these countries enter a new century free of the terrible poverty that has stained every century before.

Resources for Development

I have set out today a challenging agenda of action for the World Bank. I have rededicated a renewed World Bank to economic growth and the fight against poverty. In pursuit of these goals, I have pledged strong action on debt, firm support for economic reform and adjustment, new initiatives to promote the private sector, and renewed and innovative programs to safeguard the human environment.

It is an agenda that places heavy demands on our staff and that can only be achieved if we can continue to count on the moral, political, and financial support of our borrowers and other partners in the international community. I referred earlier to the demands that our development agenda would also make on our financial resources, and in concluding my address today I would like to elaborate on those.

There has been a dramatic decline in the resources flowing to developing countries in recent years—in a period when their needs have been very pressing indeed. Total resource flows fell by

50 percent between 1981 and 1986, largely because of the virtual disappearance of net private bank lending and net export credits. Official flows and private foreign investment, which in aggregate have inched up only a little from the levels of the early 1980s, therefore account for almost four-fifths of the current reduced total.

These figures are all the more depressing in the face of the blow dealt to developing countries' efforts in the 1980s. Excluding a few major countries that managed to sustain substantial growth rates, developing countries' income and consumption actually fell, while investment and imports declined steeply and debt service rose sharply to almost one-quarter of export earnings. In Sub-Saharan Africa incomes declined by one-quarter, investment and imports have been effectively halved, and debt service has soared from 8 to 30 percent.

None of our mutual goals for development, none of our hopes for success in the struggle against poverty, none of our investments in strengthening human resources and protecting natural resources can be realized by the World Bank acting alone. We fill but a small part of the total need. The heaviest burden falls on the developing countries themselves. But the program I have outlined depends not just on their efforts and on increasing the Bank's resources, but on substantially expanding the flow of all resources from the industrial nations to the developing world.

The role of the World Bank Group is nevertheless of particular significance. We have global responsibilities—in the heavily populated giant nations of Asia, in the poorest countries, especially in Sub-Saharan Africa, and in the middle-income countries. The Bank can and does lead the way in helping borrowers address poverty and growth, not least by encouraging and mobilizing the energies and the resources of the private sector. Adjustment efforts are creating promising new climates for investment, encouraging openings for entrepreneurship. As barriers—licensing restrictions, import and export controls—come down, private forces should rise to the opportunity. The flow of private equity investment, stagnant at about $10 billion during the past four years, is particularly important, and we must find new ways of

increasing it. The policies of developing country governments are critical to the confidence of investors and are thus a precondition for success. But we also need new mechanisms to mobilize the trillions of investment dollars available in the markets, so as to benefit the developing world—and thereby ultimately to benefit us all.

In addition to the Bank's own work in this area, the International Finance Corporation and the Multilateral Investment Guarantee Agency offer vital backing to private initiative and help in strengthening the infrastructure essential to the workings of market forces. The IFC's $800 million program of investment this year shows the range of help available and the diversity of enterprise possible. MIGA has already been ratified by the necessary number of developing countries and by Japan and Denmark among the industrial nations. It is poised to begin valuable work through programs to help improve investment conditions, attract capital, and facilitate joint ventures. I am ready to call the required conference of signatory countries in Washington to decide on any further steps needed to enable MIGA to start operating, if the MIGA convention does not enter into force by the end of next month. I am still hopeful that more industrial countries will ratify the convention soon, so that MIGA can become a reality before then.

For the poorest countries, the IDA-8 replenishment is fundamental to the structure of international action. The ratification of IDA-8 must now be swiftly followed by governments' notifying the Association of commitments and initial payments into the replenishment. I wish to thank those donor countries that have notified us of their contributions to IDA and thus enabled us to continue lending to our poorest member countries without interruption. In the same vein it is critical that our efforts to mobilize resources for the most distressed debtors and the IMF's proposal for an enlarged Structural Adjustment Facility be translated into concrete action with all possible speed.

For the highly indebted middle-income countries, the Bank is currently virtually the sole source of net funds. Others must do more, and so must the Bank. I have pledged to you today that we

will continue our greatly expanded support for the recovery efforts of our heavily indebted members, on the basis of thoroughgoing and sustained programs of economic and institutional reform. To achieve this goal while maintaining and increasing our essential commitments to the growth and poverty alleviation programs of all our borrowers, we must move forward with a substantial general capital increase for the Bank sufficient to support our expanding lending program well into the 1990s.[1] If we do not act on a general capital increase now, we simply cannot provide the resources we are being asked to provide, nor take the risks we are being asked to take. I am confident that your strong support for a substantial increase in our capital can be translated into an agreement this year.

I realize that the Bank is putting a demanding load on its members. The burden of a positive response, however, is lighter than the weight history would attach to our failure. With so many lives and so much past progress and future potential at risk, the international development community must now put new effort and added resources into the work of recovery and renewed progress. With all of us working together I am confident we can succeed.

1. In this context, it is important to recall that the Executive Directors decided last October to value the Bank's capital in U.S. dollars and periodically to review the adequacy of the capital in case the U.S. dollar substantially depreciates against the SDR.

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